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C O N F I D E N T I A L SECTION 01 OF 02 SANTO DOMINGO 003443

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STATE FOR WHA, WHA/AND, WHA/CAR, WHA/EPSC, EB,
EB/ESC/IEC/EPC;
NSC FOR SHANNON; USCINCSO ALSO FOR POLAD; TREASURY FOR
OASIA-MWAFFER
USDOC FOR 4322/ITA/MAC/WH/CARIBBEAN BASIN DIVISION
USDOC FOR 3134/ITA/USFCS/RD/WH; DHS FOR CIS-CARLOS ITURREGUI

E.O. 12958: DECL: 07/01/2015

TAGS: [PREL](#) [DR](#) [ENRG](#) [EFIN](#)

SUBJECT: DOMINICANS PLAY PETROCARIBE FOR MAXIMUM ADVANTAGE

REF: A. SANTO DOMINGO 3408

[B](#). SANTO DOMINGO 3121

Classified By: Charge Lisa Kubiske. Reason: 1.4 (b) and (d).

[1](#)1. (SBU) Summary. Dominican President Leonel Fernandez came home from the "Petrocaribe" summit of June 27-28 with Venezuelan promises of more than USD 100 million cash financing for rural infrastructure projects, terms for oil financing more favorable than last November's "Caracas Accord," and press coverage of him praising the initiative and generosity of Hugo Chavez. These were all politically useful deliverables as Fernandez reinforces domestic confidence in his ability to manage the economy, necessary fiscal reform, the IMF standby and ratification of the DR-CAFTA regional free trade agreement with the United States. End Summary.

[1](#)2. (C) Dominican President Leonel Fernandez did not indicate to us on June 21 that he was intending to participate in Hugo Chavez's "Petrocaribe" summit of June 27-28 (ref a). With his dismissive evaluation of Chavez in that conversation, Fernandez may have been seeking to inoculate the USG in advance from reacting against his participation in the summit - -or he may at that time simply not yet have decided whether to go. In either case, it is certain that the presidency and senior policy makers were involved in discussions and probably negotiations with Venezuela concerning revisions of the November 2004 "Caracas Accord" on energy cooperation and oil financing (ref b).

[1](#)3. (SBU) The press coverage of the arrival prominently displayed pictures of Fernandez, Chavez and Fidel Castro and the presidency's web site led with a photo centered on an earnest Fidel face-to-face with Fernandez. Upon his arrival on this 11th trip abroad in ten months in office, Fernandez again sounded the "big picture" theme: "This is a multilateral meeting for all of us to visualize a joint relationship. . . here and now we are going to talk about macros problems with long-term effects, and this will be an undertaking for regional energy integration." This internationalist posture does Fernandez little damage at home and further bolsters his authority within his center-left PLD, currently in the midst of a six-week national congress.

[1](#)4. (SBU) Texts of agreements are not yet available in Santo Domingo, although our Foreign Ministry contacts promise us copies as soon as they are delivered by the presidency. Fernandez's press office is declaring the meet a big win for the Dominicans. The lead story was that Venezuela will be providing USD 106 million in immediate funding, supposedly from credits accumulated through the San Jose Accord Mechanism over the years. Use of this mechanism had previously been limited to purchase of Venezuelan products, principally asphalt, and virtually nothing had been provided since the mid-2003 cutoff by Chavez of sales to Hipolito Mejia's government. Following a meeting with Nelson Menendez, head of Venezuela's National Social Development Bank, Fernandez announced that the Venezuelan government would immediately make a cash transfer of USD 31 million to support construction of a municipal aqueduct in the rural province of Altagracia; in addition, he said, the Venezuela Investment Fund would soon provide USD 27 million for rural electrification projects. Subsequent presidential press office comments changed the spin and called the total of USD 58 million a "loan" (an arrangement that would have to be approved by the Dominican Congress).

[1](#)5. (C) The Dominicans signed a revised version of the November 2004 "Caracas Accord" on energy cooperation and petroleum financing. The November agreement provided 15-year concessional financing for 25 percent of the value of up to 50,000 barrels per day exported to the Dominican Republic (of a daily consumption of 150,000 bpd). The Venezuelans had been pressing since mid-April for changes - - from free-on-board (FOB) ex-Venezuela basis to a cost insurance freight (CIF) basis, so as to require transportation aboard PDVSA vessels. This was complicated by existing Dominican ship charter arrangements with a New York firm that ran through

January 2006. It is clear that the Dominicans caved to the ideologically driven demand of the Venezuelans. Fernandez commented, "Transport will be carried out much more conveniently for the Dominican Republic, since it will be done by a fleet devoted to serving Petrocaribe, at a cost that will reflect only what it costs to operate a tanker, with no profit at all -- so that we will also have a reduction in our petroleum bill." Fernandez's comment takes no account of the expected costs of breaking the existing transport product, which refinery president Aristides Zucco complained last May could run in the worst case as much as USD 900,000 a month to January, 2006. Fernandez did not explain when this new Petrocaribe arrangement would become effective.

16. (U) Other details offered, on the run, by the President:

- - the percentage of oil financed by Venezuela will rise from 25 percent to 40 percent when the cost per barrel is above USD 40 (as at present); and at higher costs the financing percentage would rise to 50 percent.

- - the term of financing rises from 15 years to 17 years; when petroleum is more than USD 40 per barrel, the term is extended to 25 years.

- - the grace period allowed for payment rises to two years and the interest rate charged is lowered from 2 percent to 1 percent.

- - the Dominicans will be allowed to make payment in kind -- in goods or services instead of cash. At a June 30 event at his foundation, Fernandez commented, "If we, for example, are good at producing beans, and Venezuela needs to import beans, then we can export beans to pay our petroleum bill."

17. (C) Technical Advisor of the Presidency Temistocles Montas professed to the DCM on July 1 not to have any information about the "Petrocaribe" arrangements, since he had been working with IMF and debt rescheduling, instead. Montas commented that under the November "Caracas Accord" terms, the Dominican Republic had been importing Venezuelan petroleum, although in the early months of the year at a rate lower than previously expected. Projections of the possible benefits were running corresponding lower than expected -- perhaps about USD 160 million in financing for the calendar year instead of the expected 200 to 220 million. Montas expressed mild annoyance at the Venezuelans' choice to make a public issue of the issues of FOB vs CIF charges, rather than using the agreed consultation mechanisms. Montas will consult presidential chief of staff Danilo Medina in order to obtain more ample information. DCM is scheduled to meet Executive Secretary of the National Energy Corporation Reuben Montas,

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on Tuesday, July 5; Reuben Montas was also a member of Fernandez's delegation.

18. (U) This piece and others can be consulted along with extensive other material at our SIPRNET site <http://www.state.sgov.gov/p/wha/santodomingo/>

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